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Developments in Indochina

**Top Secret** 

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<u>9 January 1973</u>



# DEVELOPMENTS IN INDOCHINA

(Information as of 1500)

#### LAOS

The Communists have retaken Saravane; on 8 January they resumed the shelling of Bouam Long. The peace talks session in Vientiane this week was short and unproductive.

#### SOUTH VIETNAM

The Viet Cong are showing their people how to pull the wool over the eyes of any international supervisory and inspection force once a cease-fire is declared. Thieu's new tax measures will not eliminate budget deficits, but they do provide an efficient framework for increases in tax revenues.

# INTERNATIONAL DEVELOPMENTS

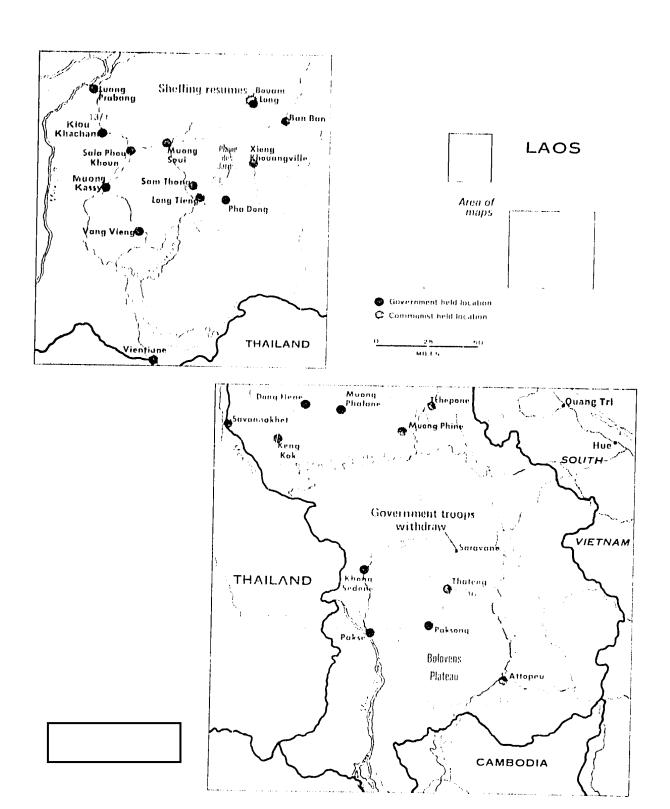
Peking has resumed its low-key, restrained treatment of the Vietnam war.

#### ANNEX

More Hard Times Ahead For Cambodia

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#### LAOS

Government units have again been forced to withdraw from Saravane. Field commanders at the southern provincial capital yesterday ordered their troops to pull back to the south and west after North Vietnamese infantry units, supported by mortar and artillery fire, isolated irregular units on the southern flank and tied down others just north of the town. One irregular battalion is holding at the airstrip just southwest of Saravane and reports that North Vietnamese have moved antiaircraft guns into the town. Air strikes are being directed against abandoned government positions.

This is the third time irregulars have been driven from Saravane since they first retook it in mid-October. They previously have been able to reoccupy the town with the help of heavy air support, but because many of the government troops have been in the line for over two months they may be reluctant to stage another counterattack.

# Renewed Shellings at Bouam Long

North Vietnamese artillery crews on 8 January resumed shelling Bouam Long, and defenders at the government base sighted company-sized enemy units closing from the west. /

# Negotiations Still Sterile

The regular weekly session of the Vientiane peace talks on 8 January lasted less than an hour and produced little of substance. The government displayed annoyance at Communist behavior last week by sending a Lao Army general to chair its delegation. a prepared statement comdemning North Vietnamese interference in Laos. The Communist delegation also indulged in polemics by denigrating Prime Minister Souvanna Phouma's neutralist credentials.

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## SOUTH VIETNAM

The Viet Cong apparently have begun training cadre to deal with representatives of the international supervisory commission after a cease-fire has been signed.

a training course was held for political cadre in that province last December. The session dwelt mostly on ways to cover up the presence of North Vietnamese troops and advise South Vietnamese civilians on how to complain about

With regard to North Vietnamese troops, the cadre were told to inform ICC members that no troops were present, whenever this could appear plausible. Where this ruse could not be used, cadre should take the line that there were some North Vietnamese in the area who had chosen to remain as civilians in the South.

allied damages.

the instructors made it clear that many North Vietnamese troops would definitely be staying, with some hiding their weapons and posing as civilians and others withdrawing to secret base areas.

The instructors also informed the cadres that all members of the control commission should be treated equally and that no favoritism was to be shown to Communist bloc members. Inspectors would be allowed to visit Communist base areas, but only when guided by Viet Cong cadres and after receiving authorization from Communist authorities. tion, people living in Communist areas are to be specially trained to approach commission members with complaints about damage inflicted by US and South Vietnamese soldiers. People's "war damage grievance committees" are to be formed and instructed on how to submit such claims.

This is the first report that the Viet Cong have been training their cadre specifically to deal with members of an international supervisory

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commission.

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the Communists

continue to hope that a cease-fire agreement will be signed and have been telling their cadre that a settlement is not far off. Binh Dinh Province is one of the few areas in the country where the Communists may reasonably expect to retain substantial control, which may explain why the initial indications of Viet Cong post-cease-fire preparations were received from this area.

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#### Thieu's New Tax Measures

Under the six-month emergency powers granted him by the National Assembly in June 1972, President Thieu issued some sixty decrees in the fields of defense, security, and economics. Of these, the largest number were directed at revamping South Vietnam's tax system and providing a sound basis for increasing the level of revenue collection. The tax measures consolidate and simplify the existing tax structure. Additionally, a new value-added tax is to go into effect by mid-year.

The most significant of the tax measures are a completely restructured property tax on agricultural lands, new income tax provisions that encourage compliance and broaden coverage, and the new value-added tax. The revised property tax should result in considerably increased revenue from rural areas where tax collection has been negligible. The income tax law, extended to include all sources of income, substitutes a much simplified single-schedule progressive tax for a multirate, ineffective system. Marginal rates for personal income range from ten to 70 percent; the corporate rate is to be 45 percent. The value-added tax, designed to supplant a heretofore sporadically applied production tax, will be a ten-percent levy on all goods and services, with exceptions given to exports and government services. Although the administrative details of the valueadded tax are not yet clear, preliminary estimates indicate that the annual revenue yields will be on the order of 40 billion plasters (\$86 million), making it by far the largest source of domestic revenues.

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Other tax measures covered by the decrees include drastic rate increases on motor vehicles, consolidation of several selective excise taxes into a special consumption tax, revision and simplification of business license and property transfer taxes, a revised single entertainment tax, and a decrease in the number of documents subject to the stamp tax. The new tax reform measures clearly indicate a government effort to increase collections through streamlining and modernizing a complex and ineffectual tax structure. These measures will not eliminate large annual budget deficits, but they will at least
provide an efficient framework for significant gains
in tax revenues.
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## INTERNATIONAL DEVELOPMENTS

Peking has resumed its low-key, restrained treatment of the Vietnam war following Madame Binh's visit, the cutback in US bombing of North Vietnam, and the resumption of the Paris talks.

The Chinese press covered routinely Le Duc Tho's stopover in Peking en route to Paris and reported only a brief summary of his remarks on his arrival in the French capital. The New China News Agency (NCNA) account of his arrival was extremely bland; Peking entirely ignored Le's harsh remarks about Washington's bargaining position and his statement that he was in Paris for "one more effort."

NCNA continues to carry a relatively large number of stories implicitly critical of US policy---especially the bombing---originated by Chinese correspondents. Most of these, however, are relatively straight-forward and free from polemics. In a story describing bomb damage in Haiphong, NCNA did not mention that one of the neighborhoods it described is inhabited by a large percentage of ethnic Chinese---a fact the North Viet-namese press has not tired of citing.

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#### ANNEX

### HARD TIMES AHEAD FOR CAMBODIA

Cambodia, the last of the Indochinese states to become directly involved in the war, faces imposing problems in resolving its share of the conflict. Any movement toward a settlement probably will be deferred until Hanoi has had time to assess its prospects in South Vietnam following a cease-As things now stand, a genuine and wide political gulf separates the Lon Nol government and the Khmer Communists. The Cambodian Army, while capable of containing the insurgent military threat, does not appear ready or able to regain the initiative on the battlefield, let alone to recover the large amount of countryside lost during the past two years. Strong external pressure may eventually be required to break the stalemate and force the two sides into serious political negotiations. In the meantime, the outlook is clouded by the disunity of the Phnom Penh regime and by the complicated but obscure relationships within the insurgent coalition.

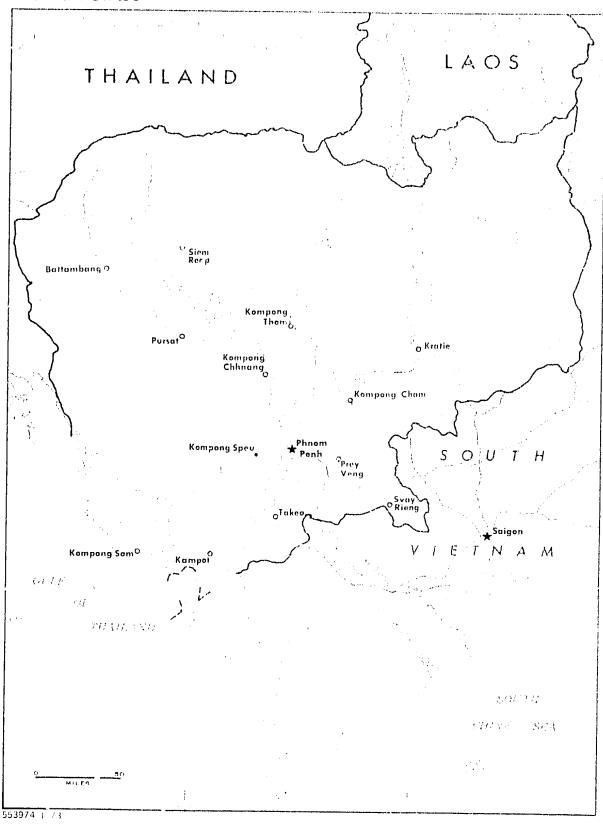
### Military Stalemate

With the return of most Vietnamese Communist units to South Vietnam during the past year, the struggle in Cambodia has taken on the overtones of civil war--a development which in itself makes a settlement more difficult to reach. In the past, Lon Nol has consistently taken the view that rost Khmer insurgents are misguided patriots who can be expected to rally to Phnom Penh once Vietnamese Communist forces have been withdrawn. Events may be forcing Lon Nol to back away from this dubious assessment. With his reluctant approval the government is now attempting for the first time to open a high-level dialogue with the insurgents. So

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# **CAMBODIA**



far there has been no evidence that the insurgents are ready to respond positively to such probing. Their propaganda continues to oppose any compromise with the Lon Nol government regardless of the settlement prospects in Vietnam and Laos. This negative attitude has been adopted in large part to accommodate the North Vietnamese, who would prefer to see continued fighting in Cambodia until their own interests in South Vietnam are nailed down.

The insurgents' hard line is probably also based on their favorable military position in the Cambodian countryside. They dominate most of the territory east of the Mekong and north of the Tonle Sap, and they know that the Cambodian Army cannot readily force them out of most areas they choose to defend. Even more significant, the insurgents have begun to demonstrate that they no longer need to rely on the Vietnamese Communists to do their fighting. Over the past few months, their forces have shown a growing ability to organize and coordinate tactical operations over large areas. Insurgent troops have been largely responsible for the road interdictions that continue to threaten the supply system to the Cambodian capital. In most cases, these actions are being carried out with only a minimum of assistance from the few Vietnamese Communist units remaining in the country. Nevertheless, despite their greater tactical independence, the insurgents are likely to continue to rely on Peking and Hanoi for most of their military supplies and equipment.

The gradual growth in insurgent military capability is more alarming when compared with the government's uninspired combat performance. Although now better armed and trained than it was in March 1970, the Cambodian Army has lost the enthusiasm and dedication it demonstrated during the early days of the war. One of the few bright spots in the present picture is the efforts of Major General

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Sosthene Fernandez, the recently appointed chief of staff, to do something about the poor leadership, corruption, and lack of discipline that plague the army. Any fundamental turn-around in the army's morale and effectiveness, however, will be slow in coming. Since the disastrous collapse a year ago of the large-scale "Chenla II" operation to open Route 6--Phnom Penh's worst defeat of the war--the government has made few vigorous attempts to regain lost ground. If past performance is any indication, the army will probably remain in a defensive posture indefinitely, with the bulk of its forces deployed around population centers and major communication lines.

### Ps'isspal Question Marks

A disappointing political performance has paralleled the government's lackluster direction of the war. increasingly isolated Lon Nol has been unable to sustain the broad confidence he enjoyed during the first year of his rule--a fact demonstrated by the narrowness of his victory in last year's presidential election. His reluctance to share authority or to modify his arbitrary style has sent former backers such as Sitik Matak to the political sidelines and dashed hopes for a unified. broadly based government. At the moment, the machinations of Lon Nol's unscrupulous younger brother, Brigadier General Lon Non, are adding to the political malaise in Phnom Penh. Since he acquired a cabinet position when the present government was formed last October, Lon Non--with the apparent approval of Lon Nol--has tried to extend his control over governmental affairs. By undercutting the positions of two key government figures, First Minister Hang Thun Hak and General Fernandez, Lon Non has already impaired their effectiveness.

Despite the rising level of political discontent, Lon Nol's would-be rivals remain disunited and lack an effective base of political or military support.

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In these circumstances, the President's health, rather than political opposition, is the key to the government's life expectancy.

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the inflexible Lon NoI, the path toward a compromise settlement of the Cambodian conflict might become smoother. On the other hand, his departure could precipitate a major political crisis in Phnom Penh. There are still no logical inheritors of Lon Nol's mantle in sight.

Phnom Penh's political problems and uncertainties may be dwarfed by those existing in the insurgent camp. In any strict sense, the term "Khmer Communist" does not accurately describe the indigenous forces operating under the banner of Sihanouk's Peking-based "Royal Government of National Union." The insurgent movement includes the "Khmer Rumdoh," non-Communist Cambodians who opposed Sihanouk's ouster in March 1970, and "Khmer Rouge," left-wing nationalistic elements who were in opposition to Sihanouk before his removal. The third, and probably the most important, faction is made up of members and followers of the shadowy Cambodian Communist Party. Most of these people are Cambodians who took up residence in North Vietnam at the time of the 1954 Geneva settlement and who have been returning over the past two years to assume prominent jobs in the expanding insurgent apparatus. The insurgent forces allegedly are commanded by three "ministers" of Sihanouk's rump government, Khieu Samphan, Hu Nim and Hou Youn--all of whom were in political opposition to Sihanouk until they disappeared in the late 1960s. At that time, they were widely believed to have been executed by Sihanouk.

Although little is known about the inner workings of the insurgent movement
point to a basic nationalist-Communist cleavage.

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This is best reflected in Peking, where Sihanouk and his small royalist entourage maintain what appear to be difficult and uncomfortable relations with the Khmer Communist members of the exile government. The apparent leader of the latter group is leng Sary, who has a history of leftist activity in Phnom Penh and who dropped out of sight for several years before surfacing in Peking in 1971 as "special envoy from the interior." The public treatment he has received indicates that the Communists expect him eventually to play an important political role in Cambodia.

Sihanouk's future undoubtedly poses the major political problem for the insurgent movement. From all accounts, Sihanouk definitely expects to return to his homeland and to serve for a time as chief of state presiding over a coalition regime including Communists. Although the Khmer Communists must appreciate his skills as a propagandist, his ability to attract diplomatic support, and the value of his residual following among the Cambodian peasantry, they doubtless harbor reservations about allowing him to return to Cambodia in any position of real or potential power. Such a reservation represents one point of possible common ground between the insurgents and the Lon Nol government, which is adamantly opposed to any solution that would bring Sihanouk back to power. A political comeback for Sihanouk would be further complicated by the murky status of his relationship with widely divergent Communist movements -- the Khmers, the Vietnamese, and the Chinese.

Peking has supported and probably will continue to back Sihanouk because of his unswerving regard for the Chinese as Cambodia's chief benefactor and protector and because he would be a hedge against North Vietnamese influence over Cambodia. Hanoi is probably less enthusiastic. The Vietnamese Communists have been primarily responsible for training the Khmer

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insurgent forces, and until recently they have borne the brunt of most of the fighting. The triumphant return of a Sihanouk openly pointing to his relationship to Peking as a guarantee against Vietnamese encroachment would offer Hanoi little return on its substantial investment.

During the past year, the situation in Cambodia has become more and more a stalemate. All parties concerned may now consider that an end to the Cambodian conflict will eventually require some form of compromise between the regime in Phnom Penh and a Communist-dominated insurgency. But until the key question of Sihanouk's future role can be thrashed out within the insurgent camp and in Phnom Penh, Hanoi, and Peking, it may be easier to go on fighting.

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